

# New Construction

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## General

[Article XIII A, section 2](#) of the California Constitution defines the "full cash value" as the county assessor's valuation of real property as shown on the 1975-76 tax bill or, thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred after the 1975 assessment. [Section 110.1\(a\)\(2\)\(B\)](#) further defines full cash value for newly constructed property as the fair market value as of the date on which new construction is completed, or if uncompleted, on the lien date.

[Section 70\(a\)](#) defines "newly constructed" and "new construction" as: (1) any addition to real property, whether land or improvements, including fixtures, since the last lien date; and (2) any alteration of land or improvement, including fixtures, since the last lien date that constitutes a major rehabilitation thereof or that converts the property to a different use. [Section 70\(b\)](#) further provides that any rehabilitation, renovation, or modernization that converts an improvement or fixture to the substantial equivalent of a new improvement or fixture is a major rehabilitation of that improvement or fixture.

[Section 71](#) provides that the assessor must determine the new base year value for that portion of any newly constructed taxable real property. The base year value of the remainder of the property, which has not undergone new construction, shall not be changed. New construction in progress on the lien date shall be appraised at its full value as of the lien date and each lien date thereafter until the date of completion. At the time of completion, the entire portion of newly constructed property shall be reappraised at its full value.

There are several statutory exclusions from assessment that apply to new construction. [Sections 70\(c\)](#) and [\(d\)](#), and [sections 73](#) through [74.7](#) addresses these exclusions.

[Rules 463](#) and [463.500](#) clarify the statutory provisions of [sections 70](#) and [71](#). A detailed discussion regarding the assessment of new construction can be found in [Assessors' Handbook Section 410, Assessment of Newly Constructed Property \(AH 410\)](#). [Assessors' Handbook Section 502, Advanced Appraisal \(AH 502\)](#), Chapter 6, also provides guidance for the assessment of new construction.

## Scope of Review

The BOE's assessment practices survey includes a review of the assessor's practices and procedures for the discovery and valuation of assessable new construction.

The specific areas of review may include, but are not limited to, the following:

## General Elements

- Does the assessor have written policies and procedures regarding the discovery and valuation of assessable new construction?
- How many building permits were issued in the county in recent years?
- How many new construction assessments were processed in recent years?
- Does the assessor maintain a contact list of all permit-issuing agencies in the county?
- Does the county have a local ordinance requiring the assessor's parcel number (APN) to be displayed on each building permit? If so, do the permit-issuing agencies comply with the ordinance?
- Does the assessor have a policy or practice of not enrolling certain low-valued new construction that is below a certain value threshold? If so,
  - What is the low-value threshold?
  - Does this low-value policy apply to only certain types of new construction or all new construction resulting in a value below the low-value threshold?
- Does the assessor receive building plans from the permit-issuing agencies?
  - If so, in what format?
    - Hard-copy?
    - Electronically through a shared computer system?
    - Electronically via e-mail?
    - CD?
    - Other?
- Does the assessor prepare diagrams for all newly constructed structures? If so,
  - Are the diagrams based on building plans or actual field measurements?
  - Does the assessor use PC drawing software, such as Apex or Winsketch, or are the diagrams manually drawn?
  - Does the appraiser of the area prepare the diagrams or is there a designated staff-member(s) responsible for preparing all diagrams?

## Building Permits

- How many agencies does the assessor receive building permits from?
- In what format are building permits received from each of the permit-issuing agencies?
  - Hard-copy?
  - Electronically through a shared computer system?
  - Electronically via e-mail?
  - CD?
  - Other?
- Do the agencies forward copies of all permits issued or only certain types of permits?
- If the assessor receives all permits from the permit-issuing agencies, does the assessor cull or discard any permits?

- If the assessor culls or discards certain permits:
  - Who in the assessor's office is responsible for deciding which permits to cull or discard?
  - Is there a list of the types of permits that get culled or discarded?
  - Does the assessor use a low-value threshold to determine if a permit is culled or discarded?
  - Does the permit get documented in the property record before being culled or discarded?
- Does the assessor receive notices of completion or a list of completion dates (finals) for the building permits from the permit-issuing agencies? If not, how does the assessor determine the completion dates for the new construction?

### **Unpermitted New Construction**

- How does the assessor discover unpermitted new construction?
  - Periodic field checks?
  - Newspaper articles?
  - Business property statements?
  - Aerial photos?
  - Fire reports?
  - Information from the property owner?
  - Information from code enforcement agencies?
  - Information from the public?
  - Other?
- Does the assessor enroll the escaped new construction as of the date of completion or as of the date of discovery?
- If escaped new construction is enrolled as of the date of completion, what is the assessor's procedure for determining the date of completion of unpermitted new construction?
- Does the assessor enroll supplemental assessments for the escaped new construction when appropriate?
- Does the assessor prepare roll corrections for all applicable years, as allowed by law, for the escaped new construction?

### **Cost Questionnaires**

- Does the assessor utilize cost questionnaires to obtain new construction data from property owners? If so,
  - Does the assessor send cost questionnaires to all property owners having been issued a building permit for new construction? or
  - Are only certain property owners sent cost questionnaires? If so, what are the parameters for sending a cost questionnaire?
  - Are cost questionnaires automatically generated for all building permits entered into the assessor's computer system? or

- Are cost questionnaires sent at the discretion of the appraiser of the area where the new construction is located?
- What is the percentage rate of return of the cost questionnaires sent to property owners?
- Does the assessor use the cost questionnaire to value certain types of new construction? If so,
  - What types of new construction are valued using the cost questionnaire?
  - Is the cost questionnaire solely used when valuing the new construction or does the assessor utilize additional cost data and/or sources to verify the information provided by the property owner?
  - How many permits are processed annually using the cost questionnaire?
- Does the assessor have an audit program in place to check the validity of the data being provided on the cost questionnaires by property owners?

## **Valuation**

- What methods of valuation does the assessor use to value assessable new construction involving:
  - Residential property?
    - Comparative Sales Approach?
    - Cost Approach?
    - Income Approach?
    - Other?
  - Commercial property?
    - Comparative Sales Approach?
    - Cost Approach?
    - Income Approach?
    - Other?
  - Industrial property?
    - Comparative Sales Approach?
    - Cost Approach?
    - Income Approach?
    - Other?
  - Agricultural property?
    - Comparative Sales Approach?
    - Cost Approach?
    - Income Approach?
    - Other?

- When using cost data in the valuation process, what sources does the assessor use?
  - [Assessors' Handbook Section 531, Residential Building Costs \(AH 531\)](#)?
  - [Assessors' Handbook Section 534, Rural Building Costs \(AH 534\)](#)?
  - Locally developed cost factors?
  - Developer's costs?
  - Owner's reported costs?
  - *Marshall Valuation Service* for commercial and/or industrial properties?
  - Other?
- Does the assessor document the source of the cost data used in the valuation process in the building property record?
- For a newly constructed building, does the assessor assign a rating of 100 percent good to the entire building or some other percentage in the valuation process?
- For an addition to an existing building, does the assessor assign a rating of 100 percent good to the addition, even though the existing building is something less than 100 percent good?
- For remodels, rehabs, or renovations, does the assessor take into consideration demolition or pre-existing materials used in the new construction project and make adjustments in the valuation process accordingly?
- How does the assessor value swimming pools?
  - Original contract or reported cost?
  - Permit value?
  - Percentage of contract or reported cost?
  - Percentage of permit value?
  - Other?
- Does the assessor have a local market study to support the assessor's valuation method used to value swimming pools?
- Does the assessor value domestic and irrigation wells as land in accordance with [Rule 124](#)?
- Does the assessor impute an interest cost component for owner-supplied construction funds when developing a replacement cost estimate for a newly constructed improvement?
- Does the assessor account for entrepreneurial profit in the valuation process when using the cost approach to value new construction?
- Does the assessor correctly determine the base year and enroll the appropriate base year value as of the date of completion of the new construction?
- Does the assessor apply the annual inflation factor to the completed new construction value when appropriate?
- Does the assessor issue supplemental assessment(s) as of the date of completion of the new construction when appropriate?

### **Construction in Progress (CIP)**

- Does the assessor determine a new market value for the CIP on the lien date? If not, how does the assessor value CIP on the lien date?
  - Percentage of the permit value?
  - Percentage of the cost indicated on the cost questionnaire received from the property owner?
  - Other?
- Does the assessor determine a new market value for the CIP for each of the lien dates after the initial lien date until the new construction is completed? or
- Does the assessor simply increase the initial market value determination by the percentage of new construction completed as of each lien date?
- Does the assessor ensure that the annual inflation factor is not applied to the CIP value enrolled for the lien date?

### **Exclusions**

- Does the assessor properly apply the appropriate exclusion from new construction assessment only when the applicant meets all of the requirements and has submitted the necessary forms and/or documentation for any of the following exclusions:
  - Builders' Exclusion?
  - Reconstruction After a Misfortune or Calamity?
  - Seismic Safety?
  - Fire Sprinklers?
  - Disabled Access?
  - Active Solar Energy System?
  - Contaminated Properties?